

**PILOT LOCAL
GOVERNMENT
PARTNERSHIP PROGRAM**

**STRENGTHENING
MUNICIPAL SERVICES AND
ENTERPRISES STRATEGY
MODULE**

(DRAFT)

Prepared for



East European Regional Housing Sector Assistance Project
Project 180-0034
U.S. Agency for International Development, ENI/EEUD/UDH
Contract No. EPE-C-00-95-001100-00, RFS No. 616

Prepared by

Jim McCullough
Research Triangle Institute

Fred Rosensweig
Training Resources Group

under subcontract to

The Urban Institute



THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

January 1997
UI Project 06610-616

TABLE OF CONTENTS

	Page
PILOT LGPP COMPONENT APPROACH	1
Introduction	1
Objectives and Focus	2
Task 1: Build the Knowledge Base	4
Task 2: Develop the Tool Kit	5
Task 3: Build Local Resource Capacity	7
Task 4: Provide Technical Support to Partner Cities	9
Task 5: Policy Dialogue	10
Implementation Strategy	10
PILOT LGPP BEST PRACTICE GUIDE	13
What this Component Covers	13
Objectives and Focus	14
What Types of Assistance Are Available?	14
Tool Kit	16
General Management Tools	16
Best Practice Case Studies and Examples	18
Policy and Regulatory Issues	18
Examples of Pilot LGPP Municipal Service Assistance	19

STRENGTHENING MUNICIPAL SERVICES AND ENTERPRISES STRATEGY MODULE

PILOT LGPP COMPONENT APPROACH

INTRODUCTION

Polish municipal governments have embarked on a long running effort to improve the performance of local municipal services through organizational reform, increased investment and cost recovery and reorientation to customer demand. This process is only partly completed and in many gminas, especially the smaller ones, only just begun.

Most gminas have completed the first steps by taking control of services formerly run by state monopolies. Many of the key municipal services, particularly the essential infrastructure services, have been converted to some form of enterprise status - although in most cases, these services are run by “budgetary enterprises” which remain part of the gmina administration and fall under government accounting and legal codes rather than the commercial code.¹

There has been some amount of further conversion of budgetary enterprises to commercial company status and a few outright privatizations. However, this further transformation has been slowed by provisions of the tax code that disadvantage such enterprises that are capital intensive. Furthermore, although many gminas state a desire for enterprise conversion in general, it is not necessary to convert a service unit in order to run it on commercially sound enterprise principles.

The primary need now with respect to service delivery is to go beyond the conversion-of-enterprises issue to focus on ways to improve performance of the service delivery units in the core municipal services. The Pilot LGPP has defined as its target the following 5 core services that are, in fact, usually conducted by some form of municipal enterprises - whether a budgetary enterprise or commercial company. These services include:

- Water supply and wastewater collection & treatment;
- Solid waste collection and disposal;
- District heating;
- Transport; and
- Roads (construction and maintenance).²

¹ Polish Budgetary Enterprises are roughly equivalent to Enterprise Funds in USA municipal government structure which means they have consolidated accounting of revenues and expenditures but are an integral part of the municipal budget and, importantly, the debt structure of the municipality.

² Management of gmina owned housing stock is another important function normally run by a municipal enterprise but that topic is covered under a separate Pilot LGPP module.

These are the services that normally recover a large part of their costs from the consumers of the services in the form of user fees. They also tend to require large amounts of capital investment and in Poland today, many of these services are still subsidized by the gminas.

Managing these services on an enterprise basis has created a quandary for gmina officials. On the one hand, an enterprise structure makes it possible to better match cost recovery to expenditures and to incorporate the costs of capital investment into the user fee system. On the other hand, gmina officials do not exercise direct control over the services and, in many cases, cannot get good information on the service delivery or the financial condition of the service unit. This will become much more acute as pending national legislation will transfer primary responsibility for tariff setting and regulation of these services directly to the gmina council.

Improving performance of the core municipal services obviously requires attention at 3 levels:

- Individual service unit or enterprise
- Relationship between gmina and service unit or enterprise
- National policy and regulations that affect service delivery

All 3 levels are important but the level which has not received adequate attention is the gmina relationship to the service unit. While there is much work to be done at the other 2 levels - and work at any one level must not be done in isolation from the others - the critical focus at this point should be on the gmina level.

OBJECTIVES AND FOCUS

The objectives of the Pilot LGPP in strengthening municipal services and enterprises are to help partner gminas in achieving:

- better quality of services delivered by municipal enterprises;
- increased efficiency in the use of resources (lower unit cost of services delivered);
- increased financial self sufficiency of municipal enterprises (higher percentage of total costs, both operating and capital, generated from user charges); and
- increased reliance on private sources of capital for investment in facilities rehabilitation and expansion (both equity and debt.)

The focus of the Pilot LGPP in this component is on helping the gmina officials better manage and regulate the municipal service units and enterprises. While some



assistance may be given to selected enterprises, the focus is on gmina level management. The Pilot LGPP will help gminas:

- monitor service performance (both operational and financial)
- set and approve tariffs
- select the most appropriate form of organizational structure
- select options for contracting and granting service concessions
- determine appropriate subsidy policies and amounts
- develop and approve capital investment plans.

The Gmina Services/Enterprises component of the Pilot LGPP will work primarily with individual gminas and regional associations (unions) of gminas. In addition, the program will work with selected individual municipal enterprises and, in some cases, private sector firms that contract with gminas and enterprises.

Since this component deals with all relevant aspects of service performance (e.g., financing) it must be conducted in an integrated approach with the Pilot LGPP components dealing with Strategic Management and Infrastructure Finance. Indeed, it is impossible to deal with the second level issues (relationship between gmina and service enterprise) without dealing with central concerns of those 2 components.

The overriding intent of our approach is to build a sustainable Polish capacity to carry on this work beyond the USAID program. During this start-up phase of the Pilot LGPP, emphasis should be placed on consolidating the knowledge base and developing the "tool kit" to guide the technical assistance to the partner cities as well as developing the professional teams who will work with the cities. A key issue is determining where Pilot LGPP assistance ends and how to support the creation of "follow-on" (non-Pilot LGPP) services which will continue to be needed by gminas - and which will most likely be provided by associations and private firms.

The proposed approach in this start-up phase of Pilot LGPP is comprised of 5 main tasks:

- Building the knowledge base about which approaches to service delivery work best under what circumstances in Polish municipalities;
- Developing a set of "tools" to disseminate that knowledge base widely and cost effectively;
- Building up Polish organizations and individuals with the technical competencies to deliver training and technical support to gminas;
- Providing direct support to the Pilot LGPP participating cities (which will also serve to field test the Pilot LGPP approaches in these early rounds of the program); and

- Supporting national policy dialogue on issues that affect service performance at the local level.

The following sections describe the tasks and activities that will be undertaken during this start-up phase.

Task 1: Build the Knowledge Base

There is a considerable body of knowledge about how municipal enterprises should function in general and some case materials on specific enterprises and services within Poland today. For example, previous and ongoing USAID projects have worked extensively in the areas of water supply and sanitation, solid waste management and housing. The World Bank is also supporting capital investments and operating improvements in the water/sewer sector, district heating and transport. These programs provide a sound basis for understanding the assistance requirements of the individual service units or enterprises.

In addition to these service specific projects, there has been some cross-sectional research on enterprise restructuring within Poland. However, the information is somewhat dated and not prescriptive. While some good training materials have been developed - especially in the environmental services area - the knowledge base is not readily available in a form that local officials and service personnel can use it to guide action. The most pressing need is for case study materials on "best practices" of Polish municipal enterprises that can serve as guides for localities. We also require a mechanism for capturing the experience of Pilot LGPP technical assistance activities as they occur so that the body of knowledge can be continually expanded.

These best practices should be drawn from several sources: (a) "home grown" Polish examples; (b) models developed via donor assistance (e.g., LEM sites); and (c) examples from neighboring countries. For purposes of Pilot LGPP, the most important sources will be (a) and (b).

The best practices should cover both operational aspects of the service enterprises as well as procedural aspects involving the transformation of the enterprise and municipal oversight (e.g., subsidy negotiations and tariff setting.)

The documentation of best practices should be in a standardized format (written) and may also involve video-taped documentation. The case materials should provide as much comparative data as possible and include the key diagnostic measures (see Task 2 below.)

In addition to case study materials, local officials can also make good use of comparative performance benchmarks which allows them to measure their own performance against other towns and cities. To make these benchmarking comparisons

possible, we propose constructing a database on key indicators of comparative performance in the target services.³ The comparative performance database will also become an important part of the diagnostic "tool kit" described under Task 2 below.

Task 2: Develop the Tool Kit

The tool kit for improving municipal services performance will have 2 main groups of tools: (a) General Management Tools and (b) Best Practice Case Studies.

General Management Tools

The General Management Tools will enable the gmina(s) to exercise better control and regulation of their service units and enterprises. These tools will also help the internal service delivery managers since they provide management information that is essential to the efficient operation of both the gmina and the service unit. The General Management Tools include 4 closely related items:

- Diagnostic Protocol
- Service/Enterprise Financial Condition Model
- Service Performance Measures
- Tariff Setting Guidelines

These 4 items, although described separately, should in fact be developed as a package since they are so closely inter-related.

The following describes the 4 tools in brief. More detailed descriptions are included in the Best Practice Guide of this component.

■ **Diagnostic protocol.** The Diagnostic Protocol will be composed of a set of generic questions to guide the initial diagnosis of the service delivery/enterprise issues in a Pilot LGPP city. Building on the experience of the Bielsko Biala missions, it will have financial, management and service coverage/quality components. Not intended to be a rigid guide, the protocol should nevertheless have sufficient specificity to produce a number of quantifiable measures, particularly on service outputs and financial performance.

■ **Service/enterprise financial condition model.** The Service/Enterprise Financial Condition Model ("Model") will be similar in form to the Gmina Financial Analysis

³ The Self-Government Analysis System (SAS) sponsored by USAID is intended to develop a national database on the costs of service provision of 14 municipal services. It is likely that this program will take a long time to become operational, certainly well beyond the pilot phase of LGPP. In the meantime, the Pilot LGPP can assemble comparative data from its pilot cities and aid in design of the SAS, especially in vetting the SAS data needs and collection protocols.

Model, but will be geared to the specific requirements of enterprise finance. It will consist of a set of computer based spreadsheets developed for the target municipal services and enterprises. The format of the components of the Model will be standardized, but each component will be tailored to reflect the nuances in operations of the target services. This tool will be used in assembling financial data and analyzing the financial condition of the enterprises.

The Financial Condition Model will facilitate the analysis of the tariff structure and help in future rate setting. The Model will allow for analysis of debt carrying capacity and provide essential information for any loan and grant applications for new investment. In addition, the Model should serve as the foundation for long term financial planning for the enterprise and should make obvious to managers the need for strategic planning.

■ **Core service performance measures.** The set of enterprise performance measures are quantitative indicators of the operational efficiency, quality of service and financial health of the service delivery department or enterprise. The two general categories of performance measures are economic and productivity measures and service delivery standards. In addition, the measures will indicate the enterprise's size, the size of its market and the breadth of services offered for comparative purposes.

■ **Tariff setting guidelines.** Under currently proposed legislation, gminas will be required to set the tariffs, approve proposed tariffs or provide for methodology in setting the tariffs of all municipal service and enterprises. In response to this demand the Pilot LGPP will prepare a set of guidelines which will include the methodology and examples for setting rate schedules. The methodology will include provision for creating cross-subsidies and allowances for "life line rates"(low rates for low income consumers).

The guidelines will be linked to the Service/Enterprise Financial Condition Model so that financial data produced by the model can be readily used in the tariff calculations. The methodology will include provisions for review of quality of service and citizen participation as a part of the tariff approval process.

The proposed package of 4 General Management Tools will be used by the Pilot LGPP field assistance teams in initiating their work in the Pilot LGPP partner cities. The instruments should be developed in a field setting by the team(s) that will be using them. As has been the case with the Gmina Financial Analysis Model, these instruments will be useful in training additional members of the TA teams in the future.

Best Practice Case Studies and Examples

These components of the tool kit will contain "how to do it" guidance that comes from the best practice cases. It is proposed that these guides will not generally be created by the Pilot LGPP but will be assembled largely from secondary sources - particularly from gminas that are already using them. In many cases, the documents will need to be

edited and put in a consistent format; in other cases, the Pilot LGPP may need to provide additional documentation to make them truly useful.

We propose in the Pilot LGPP to construct the first set of best practice examples on the subject of Municipal Service Contracting, since it is an area of great confusion and uncertainty. Gminas may not, in fact, need to contract out services, but many of them are preoccupied with the issue now and require guidance. This is also an area where some good preliminary work has already been done by the Cooperation Fund so that the package can be assembled quickly and put into use.

The first set of materials on service contracting will include:

- Contracting evaluation Checklist
- Sample ordinances issued by gmina councils
- Procurement process checklist
- Sample tendering and bidding documents
- Sample concession contracts
- Special negotiation items such as employment agreements

These documents will be made available in Polish upon request to the Pilot LGPP Office in Warsaw. As soon as possible, they will also be made available via E-mail on the Internet. The list of sample documents will be continually updated and additional topics will be added as the Pilot LGPP expands its field operations.

Task 3: Build Local Resource Capacity

The key to Pilot LGPP success will be to institutionalize the professional competence and organizational knowhow in order to create a sustainable set of resources. The experience of the USAID LEM, Cooperation Fund and Municipal Advisory Services projects indicates that the most effective path is to carry out all work from the beginning as mixed Polish-US professional teams. The teams should be largely comprised of Polish professionals with selective inputs of very experienced US professionals. The input of US professionals should decrease over time as the Polish professionals take over an increasingly larger role.

The Polish professionals will be drawn from 2 main sources:

- consulting and training organizations (management consulting and engineering firms; training institutions and universities); and
- practitioners (key employees of "best practice" local governments and municipal enterprises).

We will utilize the practitioner group heavily since there are few Polish firms that provide "hands-on" technical services and management consulting in this particular field (outside of engineering support in the water and solid waste sectors.)

As much as possible, the Pilot LGPP should contract with firms and institutions rather than build up a large single project staff. Given the current absence of management consulting firms in the municipal enterprise field in Poland, it may be that some well-run local enterprises will move into the consulting business (as has happened in the USA and western Europe.)

One important objective across all Pilot LGPP components is to develop the institutional home for information exchange among gminas, particularly for rapid dissemination of best practices. There is already some institutional infrastructure in place (with the gmina associations and the MDA) so that a decision should be made at the outset where this information exchange function can be located. It is important to do this at the outset, so that the information dissemination activities of the Pilot LGPP can directly strengthen this capability.

A key issue under Pilot LGPP is how far the direct assistance to partner cities should go. And, when Pilot LGPP assistance ends, what resources exist to carry on the work? The Pilot LGPP assistance teams require fairly clear guidelines on the extent of Pilot LGPP support and where "follow-on" (non-Pilot LGPP) services begin. The "follow-on" services will most likely be a mix of services provided by both professional associations and private firms.

We note that one responsibility of Pilot LGPP assistance is, in fact, to help the partner city identify and arrange for follow-on assistance. In most cases, this will involve the city contracting with private firms - for example, in the municipal enterprise field, gminas can contract for billing and collection services, accounting services, as well as a wide range of technical operations such as vehicle maintenance. There may be gray areas where there is not a clear line between Pilot LGPP and follow-on services - such as conducting pre-feasibility studies for key capital projects. However, in keeping with USAID objectives, the posture of Pilot LGPP should be to promote the hand-off of support functions as rapidly as possible.

The Pilot LGPP role in fostering follow-on work and in building up these types of organizations is important but should be circumscribed. That is, Pilot LGPP should serve as a clearinghouse and facilitator but must be careful not to underwrite these activities. Pilot LGPP can help create the market for such services but must be careful not to subsidize them on an ongoing basis.

Task 4: Provide Technical Support to Partner Cities

During the start-up phase of Pilot LGPP, the direct assistance to partner cities must serve a dual function. On the one hand, it provides direct support in improving service delivery performance and in restructuring - both through training and technical consulting services. In addition, these assignments should also be developing and field testing "best practice" approaches. This means that there should be conscious evaluation mechanisms built in so we know how effective both the content and the delivery of Pilot LGPP assistance really are.

The assistance to each partner city will involve applying the Diagnostic Protocol which addresses both the gmina-enterprise relationships and enterprise level issues. A subset of the protocol assesses the financial importance of the enterprise/service - both in terms of the annual gmina operating budget as well as the use of gmina capital assets. For this reason, it will be especially useful to have data from the Gmina Financial Analysis Model and some data on gmina capital investment planning.

The diagnostic protocol will help pinpoint which services/enterprises deserve attention and will likely raise some issues that the gmina officials may not have considered. In addition, the diagnostic protocol will guide an analysis of selected services/enterprises. To facilitate this, we have proposed under Task 2 the development of a simplified Service/Enterprise Financial Condition Model which organizes the financial data of the service unit along conventional public enterprise lines - adapted specifically to the Polish enterprise accounting standards. This will greatly enhance both data collection and analysis since the data requirements can be provided to the gminas and enterprises in advance of onsite consulting work.

The outcome of the diagnostic work will be the development of a work program with the partner city. This work program will specify Pilot LGPP inputs, city contribution and responsibility for work beyond the Pilot LGPP assistance. There will also be a requirement that the city will provide data for case study materials and agree to share results with other cities.

As noted in the proposed approaches in the Pilot LGPP Strategic Management and Infrastructure Finance modules, the technical support to partner cities should be regionalized in order to cover the country effectively. The activities under those modules are more advanced than the activities under this module but the concept of regional outreach programs is just as valid, once the tools and local professional capacity building is underway. Indeed, given that much of the early work in this module will involve documenting best practices in a number of different gmina services, the regional centers could be also used to identify and document the best practice cases. This would not only be efficient, but would add to the capacity building (via "learning by doing") in those centers.

Task 5: Policy Dialogue

In the start-up phase of Pilot LGPP, there are 2 types of policy concerns. The first is how to establish the mechanism for identifying and raising policy issues that arise across all Pilot LGPP focus areas. The second set of issues deals with the policy content. For the municipal services/enterprises sector, the key content issues at present mainly include accounting/taxation and anti-monopoly regulations that make it difficult to run services on an enterprise basis.

These policy issues are best dealt with by first identifying solutions that fit both the political concerns and the requirements of enterprise management - e.g., how to recover new capital investment costs in the user charges of the service enterprises. Once the feasible range of solutions is identified, then national leaders and the key ministry personnel need to come to consensus on the policy and regulatory reform. This is best done by involving key governmental staff in both the identification and consensus building.

Implementation Strategy

The start up phase has 3 types of activities that should be undertaken first:

- development of tools and building the knowledge base;
- providing assistance to the initial set of partner cities; and
- initiating the policy dialogue.

All of these involve building up local staff capacity, but it is done largely as a collaborative, on-the-job activity and not as a separate set of training exercises. Nonetheless, there are several key places where key training events can play a role during this phase:

- policy workshops where decision makers can address a focused subset of issues in an intensive manner;
- staff training workshops where materials and tools developed by one team can be transferred to the other teams - especially if Pilot LGPP does regionalize its field operations (This can also be used for transferring methodologies into Pilot LGPP from another country);
- information sharing workshops for gminas, both within the Pilot LGPP network and outside - this may involve both dissemination of Pilot LGPP best practices and, during the start-up phase, screening of potential Pilot LGPP partner city candidates.

Since the activities of the services/enterprise module require an intensive and focussed amount of effort, we propose to carry them out by establishing a core team in Warsaw, comprised of one expatriate advisor in enterprise finance and 3-4 Polish



professionals. In addition, other short term expat advisors and Polish consultants will participate on an as-needed basis.

The services/enterprise team will work closely with the other Pilot LGPP staff, especially those responsible for the Strategic Management and Infrastructure Finance components. As noted above, the team will build on any regionalized outreach activities as early as practicable.

STRENGTHENING MUNICIPAL SERVICES AND ENTERPRISES⁴

PILOT LGPP BEST PRACTICE GUIDE

WHAT THIS COMPONENT COVERS

This component of the Pilot Local Government Partnership Program (LGPP) is focused on improving the performance of key municipal services which include:

- Water supply and wastewater collection & treatment;
- Solid waste collection and disposal;
- District heating;
- Transport; and
- Roads (construction and maintenance).

These are the services that can recover a large part of their costs from the consumers of the services in the form of user fees. They also tend to require large amounts of capital investment and, in Poland today, many of these services are still subsidized by the gminas. These services are so important to both the economic development of gminas and to the financial health of gmina budgets that the Pilot LGPP has made them an important focus of the program.

BEST PRACTICE EXAMPLE

Under the USAID supported *Local Environmental Management (LEM)* program, a number of tools for improving management of local water and sewer services have been developed. Among the 7 training courses conducted by LEM in wastewater management is the *Course on Preparing a Business Plan* for local government officials and enterprise managers. The course teaches participants how to prepare a project business plan for an infrastructure project for which the gmina wants to attract outside funding (e.g., from a State environmental fund, commercial banks, private investors or foreign development lending institutions). The first part of the course covers the sources of funds, their general requirements and the business plan formats required by these agencies. The second part of the course reviews the data needed; the analysis required in the plan; and the actual preparation and publication of the business plan. Materials used in the course include: *Project Business Plan Manual; Case Study; Handbook on Gmina Accounting and Finance*.

⁴ We note that gmina service enterprises can take several distinct legal forms and this module encompasses the full range of organizations that are empowered to deliver municipal services.

OBJECTIVES AND FOCUS

The objectives of the Pilot LGPP in strengthening municipal services and enterprises are to help partner gminas in achieving:

- better quality of services;
- increased efficiency and effectiveness in the use of resources;
- increased financial self sufficiency of services run on an enterprise basis (higher percentage of total costs, both operating and capital, generated from user charges); and
- increased reliance on private sources of capital for investment in facilities rehabilitation and expansion (both equity and debt.)

The focus of the Pilot LGPP in this component is on helping the gmina officials better manage and regulate the municipal service units and enterprises. While some assistance may be given to selected enterprises, the focus is on gmina level management. The Pilot LGPP will help gminas:

- monitor service performance (both operational and financial)
- set and approve tariffs
- select the most appropriate form of organizational structure
- select options for contracting and granting service concessions
- determine appropriate subsidy policies and amounts
- develop and approve capital investment plans.

WHAT TYPES OF ASSISTANCE ARE AVAILABLE?

The Gmina Services/Enterprises component of the Pilot LGPP will work primarily with individual gminas and regional associations (unions) of gminas. In addition, the program may work with selected individual municipal enterprises and, in some cases, private sector firms that contract with gminas and enterprises.

The Pilot LGPP assistance includes technical consulting services, training and dissemination of information to the partner cities and associations. The technical consulting services and training will be organized around providing a set of well developed “tools” to the partner gminas such as a computer model that analyzes the financial condition of each service department or enterprise. The Pilot LGPP Tool Kit is described in the next section of this report. In addition to the tools and consulting services to individual gminas, the Pilot LGPP will also provide assistance in information

exchange across gminas and policy support at the national level. In terms of information exchange, Pilot LGPP will assemble and disseminate information on:

- Case studies of successful examples of specific service delivery practices from around Poland and from other countries.
- Comparative data on service tariffs and financial performance indicators of gmina services across Poland so that local officials can compare their own situations to other similar cities.

In addition to the broad information exchange functions noted above, Pilot LGPP will also conduct training workshops for gmina officials and staff in areas that are of common interest across a large number of gminas.

Best Practice Example

The gmina of Bielsko-Biala is receiving assistance from the Pilot LGPP in managing 2 municipal service enterprises, the municipal cleaning company, ZOM, and the bus transport company, MZK. ZOM is the sole provider of street cleaning, snow removal and waste collection and disposal services, including operation of a landfill. MZK operates the intracity bus service, also as a monopoly.

Bielsko-Biala expressed interest in restructuring these enterprises to improve operational efficiency and provide for financial self-sufficiency. The gmina continues to provide an operating subsidy to MZK and has funded capital expenditures for both MZK and ZOM from its annual budget.

LGPP experts in municipal management, service enterprise operations, marketing and financial management worked with Bielsko-Biala to assess the condition of the services and to make recommendations for improvement in the areas of strategy and organization, management, operations, marketing, finance, rates and charges. Recommendations were focused on providing the tools to the gmina for monitoring service performance as well as establishing the environment to foster efficiency, financial self-sufficiency and higher levels service to customers. Specific recommendations for improved operations also were provided to the enterprises.

The Pilot LGPP work in Bielsko-Biala will serve as the basis for developing many of the tools for strengthening municipal services and enterprises under the LGPP pilot program, including:

- the diagnostic protocol
- the service enterprise financial condition model
- model service performance measures
- models for establishing and reviewing tariff rates
- model contracts for service delivery concessions and bid documents

TOOL KIT

The Pilot LGPP will provide 2 types of tools to partner gminas in this phase:

- General Management Tools for improving gmina control over service departments and enterprises
- Best Practice Case Studies and Examples

General Management Tools

The General Management Tools will enable the gmina(s) to exercise better control and regulation of their services. These tools will also help the internal enterprise managers since they provide management information essential to the efficient operation of both the gmina and the service. The General Management Tools include:

- Diagnostic Protocol
- Service/Enterprise Financial Condition Model
- Service Performance Measures
- Tariff Setting Guidelines

■ **Diagnostic protocol.** To guide the work with partner gminas in the area of municipal services/enterprises, the Pilot LGPP has developed a simple diagnostic protocol which includes all the information that the Pilot LGPP team will need in order to carry out a proper diagnosis of the current situation in the gmina. The use of this protocol insures that the Pilot LGPP team can make a rapid and thorough assessment without having to burden the gmina staff with repeated requests for data.

The protocol includes service performance measures, financial information, organizational and descriptive data about the core service delivery units and enterprises. The protocol enables the Pilot LGPP team to make a rapid assessment of the condition in the partner gmina and to focus additional work on the areas of greatest need.

■ **Service/enterprise financial condition model.** The Financial Condition Model ("Model") will be similar in form to the Gmina Financial Analysis Model, but will be geared to the specific requirements of enterprise finance. It will consist of a set of computer based spreadsheets developed for the target municipal services. The format of the components of the Model will be standardized, but each component will be tailored to reflect the nuances in operations of the target services. This tool will be used in assembling financial data and analyzing the financial condition of the service enterprises.

Most of the inputs to the model will come from standard financial reports, including balance sheets, actual and budgeted income statements, depreciation schedules, and income tax returns. Certain quantitative, non-financial information which drive revenues,

costs or investment will also be inputs to the model (e.g., for a transport company: number of riders by category, number of employees, number of vehicles by type, number of routes, kilometers of routes). In order to obtain a comprehensive view, financial information must also be obtained from the gmina where there are direct or hidden operating or capital subsidies.

The Financial Condition Model will facilitate the analysis of the tariff structure and help in future rate setting. The Model will allow for analysis of debt carrying capacity and provide essential information for any loan and grant applications for new investment. In addition, the Model should serve as the foundation for long term financial planning for the enterprise and should make obvious to managers the need for strategic planning.

Best Practice Example

Olsztyn - Municipal Transportation

Based on the request of a private entrepreneur, the City of Olsztyn agreed to allow a private bus company to operate within the City limits. To prevent conflict with the Municipal Transportation Company (MZK) the equity structure of new company was split so that 90% was held by the private entrepreneur, and 10% was given to MZK. The core competence of the private company was operating with smaller sized buses (lower costs of maintenance and fuel) while greatly tightening fare collection (made the responsibility of the driver.) By matching the capacity to the demand and insuring higher cost recovery, the company produced a positive cash flow.

Once operating, the private company improved internal efficiency by leasing the buses to the drivers, making them, in effect, entrepreneurs. The company provides all maintenance and scheduling of the routes while the drivers have the incentive to maximize revenues by keeping the buses in service and maintaining high collection rates. This scheme has produced a better level of service (more buses in service at times demanded) and lower overall fares compared to the city run system. The drivers have greatly increased wages and competition has been introduced into the MZK.

■ **Service performance measures.** The set of service performance measures are quantitative indicators of the operational efficiency, quality of service and financial health of the service unit or enterprise. The two general categories of performance measures are economic and productivity measures and service delivery standards. In addition, the measures will indicate the enterprise's size, the size of its market and the breadth of services offered for comparative purposes.

Performance measures are a useful mechanism for gmina oversight and regulation of municipal services and enterprises. They can be incorporated as targets into contracts for service delivery between the gmina and the enterprise. They may also be used as a basis for establishing incentive programs for enterprise managers and employees - this,



in turn will help improve overall service delivery, operating efficiency and the financial condition of the enterprise.

Local officials can make good use of comparative performance benchmarks to measure their own performance against other towns and cities. To make these benchmarking comparisons possible, a database on key indicators of comparative performance in the target services will be developed by the Pilot LGPP.

■ **Tariff setting guidelines.** Under currently proposed legislation, gminas will be required to set the tariffs, approve proposed tariffs or provide for methodology in setting the tariffs of all municipal service and enterprises. In response to this demand the Pilot LGPP will prepare a set of guidelines which will include the methodology and examples for setting rate schedules. The methodology will include provision for creating cross-subsidies and allowances for “life line rates”(low rates for low income consumers).

The guidelines will be linked to the Service Enterprise Financial Condition Model so that financial data produced by the model can be readily used in the tariff calculations. The methodology will include provisions for review of quality of service and citizen participation as a part of the tariff approval process.

Best Practice Case Studies and Examples

The Pilot LGPP will provide case studies and examples of successful enterprise management. The first set of best practice examples will cover the topic of *municipal service contracting* since this topic is of such great concern to gmina officials today.

The Pilot LGPP will assemble materials from municipal enterprises in Poland (and from other countries as appropriate) and make those materials available to partner cities. The first set of materials on service contracting will include:

- Sample ordinances issued by gmina councils
- Procurement process checklist
- Sample tendering and bidding documents
- Sample concession contracts
- Special negotiation items such as employment agreements

These documents will be made available in Polish upon request to the Pilot LGPP Office in Warsaw. As soon as possible, they will also be made available via E-mail on the Internet. The list of sample documents will be continually updated and additional topics will be added as the Pilot LGPP expands its field operations.

POLICY AND REGULATORY ISSUES

While most of the assistance provided by Pilot LGPP will be directed at the gmina level, there will be an additional component which will address issues at the national policy and regulatory level. For example, the national tax code and various laws dealing with enterprise forms have a great impact on the financial viability and operating procedures of municipal services. This program will also provide information and technical support at that level to ensure that the national policy and regulations are conducive to effective functioning of municipal service enterprises.

EXAMPLES OF PILOT LGPP MUNICIPAL SERVICE ASSISTANCE

The Municipal Service/Enterprise component will provide a wide range of support and cover a equally wide range of service types and situations. To give a clearer picture of the types of activities that might be undertaken, we present on the next 3 pages a series of Case Examples for the Pilot LGPP Municipal Service component. In each "Case" below we briefly describe the problem faced by the gmina, or regional association, and the types of activity that might be undertaken with Pilot LGPP support to solve that problem.



CASE 1: MUNICIPAL TRANSPORT

PROBLEM:

The gmina provides poor transport service because the buses owned by its Municipal Transport Company (budgetary enterprise) are old and frequently out of service. However, the gmina and the service enterprise do not have funds to purchase new buses.

ASSISTANCE:

The Pilot LGPP can provide expert consultants to help the gmina examine its different options for improving bus service. This would include options for :

- issuing bonds to purchase buses for the Municipal Transport Company;
- privatizing the MTC and selling shares to raise investment capital; and
- several ways of allowing private bus companies to provide service on the routes through concession contracts.

The Pilot LGPP would assist the gmina and the MTC prepare the analyses which would show the impacts on bus services, financial condition of the gmina and MTC and tariff rates. The Pilot LGPP team could also assist in presenting the analysis to the gmina council if desired.

Once the gmina selected an option, the Pilot LGPP would help the gmina carry out that option. For example, the Pilot LGPP could help the gmina prepare the documents for the bond issue and serve as financial advisor in selecting the underwriters and negotiating the bond sale. Alternatively, if the gmina opted for concession contracting, the Pilot LGPP could provide legal advice on preparing the contracts and could assist in preparing the contractual documents. Assistance could also be provided in analyzing the financial impact of differing terms and conditions during negotiations so that the resultant contract would be fair to both the gmina and the contractor.

At the completion of the assistance, the Pilot LGPP could provide assistance to the gmina in periodic monitoring of the project to make sure that the gmina was receiving full value.

CASE 2: REGIONAL LANDFILL**PROBLEM:**

A group of small and medium sized gminas need to develop new sites for disposing of municipal solid waste and sludge from several wastewater treatment plants. The group has formed a regional association but they are having trouble agreeing on the type of company to create and operate the landfill and they have no ready funds to pay for construction.

ASSISTANCE:

The Pilot LGPP can first provide expert consultants to review the technical requirements of the landfill and make recommendations that would provide the best technical solutions at the lowest costs.

The Pilot LGPP can advise on the options for creating a regional company and provide models of incorporation and bylaws documents.

The Pilot LGPP can provide an analysis to the regional association showing the costs and benefits of differing approaches, particularly the tradeoffs among:

- owning and operating the landfill by the association;
- owning the landfill and contracting out management;
- contracting with a privately owned landfill.

Depending on the model selected, the Pilot LGPP can provide technical assistance on setting prices that recover operating and capital costs.

The Pilot LGPP can provide assistance in negotiating long term management contracts, or if the privatization option is selected, the long term service agreement.

If the association decides to build the landfill itself, the Pilot LGPP can provide financial advisory assistance in developing the financing plan and in putting together a package of grants and loans for the capital construction. This might also include assistance in a bond issue, as noted under Case No. 1.



CASE 3: DISTRICT HEATING

PROBLEM:

The gmina heating enterprise continues to request increasing amounts of subsidy from the gmina council which takes a large percentage of the gmina budget. The council members do not have enough information on the financial condition or the service characteristics to know whether the subsidy is justified. The current managers of the enterprise have also made a proposal to privatize the management of the enterprise and enter into a service contract with the city. The council members are divided on the merits of the proposal and have no hard data to use in making the evaluation.

ASSISTANCE:

The Pilot LGPP can provide consultants to the gmina to establish a system of performance measures which the council and board can use to monitor the financial and technical performance of the heating enterprise. This can be used by the board to determine the efficiency of the management and to track costs over time. The Pilot LGPP can assist the council and board in preparing a financial plan for the heating enterprise that sets performance standards for service delivery, establishes financial cost controls and links subsidies to meeting these targets.

The Pilot LGPP can also provide comparative information from other cities so the gmina council can see how its heating company compares to others, in terms of cost and service performance.

The Pilot LGPP can provide assistance to the gmina council in establishing performance targets for the management of the heating enterprise whether or not it is privatized. If the council decided to enter into a management contract, the Pilot LGPP can help the council evaluate the proposal and put performance criteria into the contract. The Pilot LGPP can also provide legal advice on drafting the contract and provide examples of model contracts.

The Pilot LGPP can also provide assistance to the enterprise management in ways to improve performance through internal audits.